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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

August 14, 1995

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

Re: The Lincoln Telephone and Telegraph Company
Common Carrier Docket No. 94-157

Dear Mr. Caton:

The accompanying filing consists of eight (8) copies of the Direct Case of The Lincoln Telephone and Telegraph Company ("Lincoln") in Common Carrier Docket No. 94-157. In this filing, Lincoln responds to the Commission's Order Designating Issues For Investigation.

Please return a date-stamped copy of this Transmittal in the enclosed stamped and self-addressed envelope. All correspondence in connection with this Transmittal should be addressed to Robert A. Mazer, Esquire, Rosenman & Colin, 1300 - 19th Street, N.W., Suite 200, Washington, DC 20036.

Respectfully submitted,

THE LINCOLN TELEPHONE AND TELEGRAPH COMPANY

By: Robert A. Mazer / gmy

Robert A. Mazer

Counsel for the Lincoln Telephone and Telegraph Company

Attachments: Direct Case

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Responses

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

RECEIVED

AUG 14 1995

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of	)	
	)	
The Lincoln Telephone and Telegraph Company	)	
	)	
	)	
Order Designating OPEB Issues For Investigation	)	CC Docket No. 94-157

DIRECT CASE

I. INTRODUCTION

The Lincoln Telephone and Telegraph Company ("Lincoln"), by its attorneys, hereby files its direct case in response to the Commission's Order Designating Issues for Investigation in CC Docket No. 94-157. Lincoln's responses can be found on the pages which follow.

II. RESPONSES TO ISSUES DESIGNATED FOR INVESTIGATION

1. General Information on OPEB Costs Claimed

Issue A. Have AT&T and the individual LECs correctly, reasonably and justifiably calculated the gross amount of SFAS-106 costs that may be subject to exogenous treatment under price cap regulation?

A. Paragraph 17 (1)

Lincoln implemented SFAS-106 on January 1. 1993.

B. Paragraph 17 (2)

When Lincoln became subject to price cap regulation on May 1, 1993, it's rates contained six months of pay-as-you-go amounts which were part of it's 1992 tariff filing. These amounts were developed by it's accounting personnel. Lincoln used historical trends to develop the pay-as-you-go amounts, anticipating no significant change in retirees or benefits.

C. Paragraph 17 (3)

Lincoln became subject to price cap regulation of May 1, 1993 and implemented SFAS-106 accounting methods on January 1. 1993; therefore, this question does not pertain to Lincoln.

D. Paragraph 17 (4)

Lincoln became subject to price cap regulation on May 1, 1993 and implemented SFAS-106 accounting methods on January 1, 1993; therefore, this question does not pertain to Lincoln.

E. Paragraph 17 (5)

In Exhibit A, Lincoln has provided copies of selected pages from its Form 10-K, Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934, for the fiscal years ending December 31, 1993 and December 31, 1994, as supplied to The United States Securities and Exchange Commission (SEC). Under Accounting Pronouncements, Lincoln states its election to account for the accumulated post-retirement benefit obligation as of January 1, 1993 and the resulting charge.

In Exhibit B, Lincoln has provided copies of selected pages from its 1993 and 1994 Annual Reports to stockholders. These pages explained to it's stockholders, Lincoln's post-retirement benefit obligations.

F. Paragraph 18 (1)

The benefits provided to Lincoln's retirees by the SFAS-106 accounting rules are:

Provision	Description
Health Care	Active employee plan
Medicare Part B	Employee premium reimbursed
Dental Benefits	Active plan, without dependent orthodontia
Death Benefits	Active group life and survivor benefit plans

G. Paragraph 18 (2)

The pay-as-you-go amounts for 1993 and 1994 if Lincoln had not implemented SFAS-106 are $2,223,771 and $2,293,616, respectively.

H. Paragraph 18 (3)

Prior to January 1, 1993, Lincoln did not perform post-retirement benefit accrual accounting. On January 1, 1993, Lincoln adopted SFAS-106 accounting methodology. Lincoln became subject to price cap regulation on May 1, 1993

I. Paragraph 18 (4)

As part of it's 1992 Annual Rate of Return Tariff filing, Lincoln's rates included six months of pay-as-you-go amounts (July 1, 1992 - December 31, 1992) and six months of OPEBs (January 1 - June 30, 1993). These amounts were of the type described in response to Paragraph 18, item (1). However, as part of its review of Lincoln's tariff, the Commission disallowed $1,149,000 of Lincoln's Expense Less Depreciation (ELD) amount that fell outside the Commission's parameters. Had Lincoln not adopted SFAS-106 accounting methods on January 1, 1993, Lincoln's projected expenses would have fallen within the Commission's parameters. Therefore, of the total company $2,950,000 in projected OPEBs, the Commission allowed $1,801,000.

Of this $1,801,000, $323,445 was reflected in Lincoln's rates before they were adjusted for any exogenous treatment related to SFAS-106 in Lincoln's 1993 initial price cap filing.

J. Paragraph 18 (5)

When Lincoln became subject to price cap regulation on May 1, 1993, it's access rates contained $323,445 of OPEB expense.

Issue B. **Should exogenous claims be permitted for SFAS-106 costs incurred prior to January 1, 1993, the Commission's date for mandatory compliance?**

K. Paragraph 19

Lincoln adopted SFAS-106 accounting methods on January 1, 1993; therefore, this issue does not pertain to Lincoln.

2. Regulatory Separations and Allocations

Issue C. **Have AT&T and the individual LECs correctly and reasonably allocated and separated amounts associated with implementation of SFAS-106 in accordance with the Commission's rules and Responsible Accounting Officer (RAO) letters?**

L. Paragraph 20 (1)

The Transition Benefit Obligation (TBO) for retirees only portion of OPEBs for Lincoln (this is the only portion of OPEBs Lincoln sought an exogenous change for in its rates) is $25,882,923.

Lincoln's affiliated companies have been in operation for a relatively short period and have not experienced the retirement of any employees prior to 1993; therefore, the only TBO for retirees calculated by Lincoln's actuarial consultant, Buck Consultants, Inc., was for Lincoln itself

M. Paragraph 20 (2)

Lincoln contracted with Buck Consultants, Inc. of Chicago Illinois to perform actuarial studies to determine this amount (see Exhibit C).

N - Q Paragraph 20 (3) - (6)

Note: Lincoln has sought exogenous treatment for the Transition Benefit Obligation (TBO) for retirees only.

Lincoln's affiliated companies have been in operation for a relatively short period and have not experienced the retirement of any employees; therefore, the only TBO for retirees calculated by Lincoln's actuarial consultant, Buck Consultants, Inc., was for Lincoln itself.

As of January 1, 1993, Lincoln's telephone operating companies acquired $25,882,923 of TBO for retirees. To arrive at this figure, actuarial methodology was used by Buck Consultants to develop the study contained in Exhibit C.

To determine Lincoln's exogenous change (see Exhibit D), Lincoln reduced this amount by its prior accrued amount and then amortized the result over a 20 year period. Lincoln also included interest on the balance (at 9.5%) following methods employed by its actuarial consultant. Lincoln reduced the exogenous amount by the current pay-as-you-go amount which is already reflected in its rates that were capped. This is shown as amount #7 on Exhibit D.

Next, Lincoln applied the 84.8% determined by the Godwins Study to arrive at the amount of OPEBs exogenous change not reflected in the GDP-PI. This amount was then divided into quarters and reduced to allow for the portion of labor related expenses transferred to non-regulated accounts (6%). This was further reduced for the portion of labor expenses capitalized (10% of regulated amount).

Finally, this amount was allocated across the Part 32 benefit matrix of Lincoln's 1992 first and second quarter historical base studies (see Exhibit E) and recalculated. The resultant change between these studies and the original historical base studies (1992 Part 36 and 69 cost studies) became the first part of Lincoln's OPEB exogenous change.

When Lincoln filed its initial price cap tariff, it had two quarters of OPEBs partially included in its current rates. Lincoln reduced amount #7 from Exhibit D for two quarters by the amount of TBO for retirees already reflected in its current rates.

This amount was then divided into quarters and reduced by the portion of labor related expenses transferred to no-regulated accounts (6%). This was further reduced for the labor expenses capitalized (10% of regulated amount).

These amounts were then allocated across the benefit matrix of the Lincoln's 1992 third and fourth quarter historical base studies (see Exhibit E) and recalculated. The resultant change between these studies and the original historical base studies (1992 Part 36 and 69 cost studies) were added to the first part of Lincoln's OPEB exogenous change to arrive at the total OPEB exogenous change.

Using Part 36 and 69 allocation methodology, Lincoln's OPEB exogenous change was allocated to the following interstate access baskets:

Traffic Sensitive	Common Line	Special Access
$ 63,131	$ 48.346	$ 12,694

Under Part 69 rules, the effect of Lincoln's OPEB exogenous change on that portion of IX which is included in Lincoln's Price Cap rates is less than $1.

3. VEBA Trust Information

Issue D. **How should Voluntary Employee Benefit Association trusts or other funding mechanisms for these expenses be treated: (1) if implemented before price caps; (2) if implemented after price caps, but before the change required by SFAS-106; and (3) if implemented after the change in accounting required by SFAS-106?**

Issue E. **Should exogenous treatment for SFAS-106 amounts be limited to costs that are funded?**

R. Paragraph 21 (1) - (5)

Lincoln does not, nor ever had, trusts or other funding mechanisms for any Voluntary Employee Benefit Association.

4. Vesting of OPEB Interests

Issue F. Should exogenous treatment be given only for amounts associated with employee interests that have vested?

S. Paragraph 22

Lincoln has included only the TBO for retirees in it's OPEB exogenous change; therefore, Lincoln's OPEB exogenous change clearly represents vested interests.

Lincoln's employees become vested in OPEBs when they have completed 15 years of Net Credited Service before their Normal Retirement Date. Excerpts from Lincoln's Employee Handbook explaining the vesting of OPEBs is including in this filing as Exhibit F.

5. Treatment of Deferred Tax Benefits

Issue G. How should the deferred tax benefit applicable to OPEBs be treated for purposes of exogenous adjustments?

T. Paragraph 23

Lincoln has made one OPEB exogenous change in its tariff filings, that being in the 1993 tariff filing. This OPEB exogenous change was removed in the 1995 tariff filing. Upon review of its 1993 tariff filing, Lincoln has discovered that no adjustment was made to reflect any deferred tax benefit associated with OPEB accrual amounts.

6. Supporting Studies and Models

U. Paragraph 24

In matters of inflation, Lincoln refers the Commission to the Direct Case Filing of the United States Telephone Association (USTA) in conjunction with this filing, particularly; Attachments C, Godwins, "Post-Retirement Health Care Study Comparison of Telco Demographic and Economic Structures and Actuarial Basis National Averages" (1992), Attachment D, an explanation of the macroeconomic model prepared in response to paragraph 16 of the Commission's Investigation Order in CC Docket 92-10; Attachment B ("Crosby Introductory Statement"), a statement explaining the results of the original study; Attachment E, a rebuttal analysis accompanying the Godwins study; Attachment F showing the results of an additional sensitivity analysis and explaining the conservative nature of the Godwins study; and Attachment A, an affidavit from Peter Neuwirth, a co-author of the original Godwin's study, and Andrew Abel, Ph.D., who demonstrate that the original study is still valid today.

Under Commission rules that existed on July 1, 1993, exogenous changes must pass a two-prong test. First, it must not be recovered through the GDP-PI segment of the price cap formulas. Secondly, it must be beyond the control of the LEC. Lincoln sought an exogenous change for the TBO for retirees only portion of OPEBs at the time it adopted SFAS-106 accounting methods. The TBO for retirees is a explicit function of a change in accounting rules and meets both tests.

Productivity and sharing were not part of the exogenous cost test that existed on July 1, 1993, accordingly, Lincoln did not perform any analysis on those aspects of the price cap plan.

> Note: Any refund of OPEB exogenous amounts will reduce sharing obligations from July 1,1993 to June 30, 1995.

As stated in response to paragraph 18, Lincoln did include six months of OPEBs in the filing of it's rates that were to become effective when it initially became subject to price cap regulation. However, due to the disallowance resulting from the Commission's parameter test, only a portion of these OPEBs were included in Lincoln's rates when it became subject to price cap regulation.

V. Paragraph 25

Lincoln refers the Commission to USTA's Direct Case mentioned in response to paragraph 24. In addition to Attachments A through F of USTA's Direct Case, Lincoln refers to Attachment G, an explanation of the macroeconomic model used in the Godwins study and Attachment H, a USTA ex parte filing which responds to certain arguments that the adoption of SFAS-106 has not changed actual costs.

W. Paragraph 26

The accompanying actuarial reports (Exhibit C) identify the economic and demographic assumptions employed in determining the SFAS-106 amounts. The majority of demographic assumptions (e.g., mortality, withdrawal, retirement, dependency status), are the same as the ones used in valuing Lincoln's pension liabilities under SFAS-87. Use of these factors is felt to be reasonable since the same employee group is covered for both types of benefits, and actual retirement income commencement initiates the post-retirement benefit coverage. Although formal experience studies have not been performed recently, the actuary reviews the demographic assumptions annually and considers them appropriate in light of historic experience and the characteristics of the employee groups. Participation rates were arrived at after examining experience results of other employers requiring significant employee contributions to continue medical benefit coverage.

Economic assumptions include salary progression, discount rates, per capita claims cost and health care cost trend rates.

The assumed salary progression reflects Lincoln's near and longer term expectations. Per capita claims costs are experience-based factors developed by the medical and dental programs' claims administrators. The health care cost trend rates implicitly consider estimates of cost inflation, changes in utilization patterns, technological advances and changes in health status. Because of the significance of Medicare benefits, separate factors were utilized for retirees over and under age 65. The initial trend rates reflect the current, general cost increase environment for Lincoln's plan of benefits provided to its retirees. The ultimate trend levels anticipate a reduction in the present annual growth rate of medical expenditures to one coinciding with the long term increase in per capita GNP.

The intent of the accounting standards is for the discount rates to reflect the underlying rates appropriate in settlement prices. While settlement is a practical possibility for pension liabilities, it is not for post-retirement medical benefits. The alternative to a settlement reference is to select a discount rate that represents a hypothetical portfolio of zero coupon, high-quality bonds with maturities that match the expected benefit payments. Since very few high-quality zero coupon bonds exist, reference is frequently made to high-quality coupon instruments stripped of the coupons.

Because of the high trend rates, medical benefits are expected to have a very different (longer) average duration than a pension obligation for the same group of participants. Instead of projecting benefit payments and developing a duration weighted portfolio, 75 basis points were added to a settlement rate index. For the 1993 SFAS 106 periodic cost, using a reference bond index of A/BAA plus 75 basis points for duration adjustment yields a discount rate of about 9.4%. For the 1994 expense, an above average AAA/AA bond index plus 75 basis points produced an 8.0% discount rate.

For both years' calculations, employer per capita medical and dental costs for employees and dependents were assumed to remain constant at the October, 1995 dollar amount for employees retiring after October, 1995.

X - Z Paragraph 27

The submitted reports in Exhibit C and the response to the previous paragraph contain the actuarial information utilized. No SFAS-112 liabilities have been recognized by Lincoln. The possibility of future downsizing was not taken into account in the SFAS-106 computations. During the period covered by the 1993 and 1994 tariff filings, Lincoln experienced no force adjustment actions.

Downsizing will not affect Lincoln's exogenous change which only incorporated that portion of OPEBs dealing with the TBO for retirees only.

AA - AB Paragraph 28

Based on the Godwins study referred to in response to paragraph 25 and the steps described in response to paragraph 20, Lincoln applied the 84.8% (see Exhibit D) determined by the Godwins study as the amount of OPEBs exogenous change not reflected (or double-counted) in the GNP-PI.

7. Miscellaneous Supporting Information

AC - AD Paragraph 29

As shown on Exhibit G, Lincoln's average total compensation per employee for 1992, the year before Lincoln adopted SFAS-106 accounting, was $37,643. For 1993, the year Lincoln adopted SFAS-106 accounting, the figure was $43,175, of which $3,959 was due to OPEBs.

Exhibit H, shows the national average compensation for nonagricultural employees to be $33,069 and $ 34,142 for 1992 and 1993, respectively. 1993's figure includes $388 of OPEBs.

Exhibits G and H show that while OPEBs has had a relatively light impact on the national employees total compensation, the effect upon Lincoln's employees has been much greater

AE Paragraph 30

The only significant circumstance in which a measurable reduction in the liabilities and in the accrual would occur is in the event of a curtailment or elimination of benefits. Since the post-retirement program is expected to be permanent and retain its present form, no over-accrual is anticipated and no provision made for refunds.

AF Paragraph 31

Lincoln's OPEB exogenous cost change was incorporated in the 1993 tariff filing and removed as part of the 1995 tariff filing. There have been no changes in OPEBs offerings to employees or new contracts negotiated with representative unions during this time.

As Lincoln's OPEB exogenous treatment is for the TBO for retirees only (as of the date Lincoln adopted SFAS-106 accounting methods), any change in negotiated contracts with representative unions will not affect it.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1993

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________
Commission File No. __________

The Lincoln Telephone and Telegraph Company
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	47-0223220 (I.R.S. Employer Identification No.)
1440 M Street, Lincoln, Nebraska (Address of principal executive offices)	68508 (Zip Code)

Registrant's telephone number, including area code: 402-474-2211

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: 5% Preferred Stock ($100.00 par value)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ____ No _X_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the Registrant's voting stock held by non-affiliates, based upon the closing price of such stock as of February 28, 1994, was $____-0-____.

Number of shares of common stock outstanding
on
February 28, 1994 -- 1,000

Item 7. cont'd.

Competition in the wireless communications markets is expected to eventually increase due to the FCC's assigning additional frequency spectrum to Personal Communications Services (PCS), which could allow an individual to place calls and be contacted at virtually any location. During 1993, Congress amended the Communications Act to authorize the use of competitive bidding as a means of awarding licenses for spectrum use for PCS and other services. The FCC issued rules and regulations for the development of PCS. The FCC has allocated spectrum for a total of up to seven possible PCS providers in each market. Due to the Company's ownership of cellular licenses, it will be restricted to bidding on 10 Megahertz of frequency in the Lincoln, Omaha, and Nebraska statewide markets. It is not precluded from other markets outside of Nebraska.

Accounting Pronouncements

In December 1990, the Financial Accounting Standards Board issued a new statement of accounting standards related to insurance and other non-pension benefits provided to retirees (SFAS 106). Prior to 1993, the Company accounted for these benefits as costs were incurred. Under the new standards, recognition of these costs is accelerated and accrued prior to retirement, similar to accounting for pension benefits. Implementation of the new standards was required in 1993. The Company elected to account for the accumulated post-retirement benefit obligation as of January 1, 1993, taking a charge of $23,166,000, net of income tax benefits.

In February 1992, the Financial Accounting Standards Board issued a new statement of accounting standards relating to current and deferred income taxes (SFAS 109). The Company intends to apply this new standard in 1993. The new standard will not have a significant impact on the Company's financial statements.

Recent Developments

On March 16, 1994, LTEC announced that due to changes in technology, customer growth and usage demand for Lincoln Telephone Cellular's services, it will be necessary to replace the existing analog cellular system in the Lincoln MSA with digital cellular equipment to be purchased from AT&T. The digital equipment will increase capacity and performance, and is expected to be operational in mid-1995.

The implementation of this system upgrade will cause the early retirement of existing analog equipment prior to the expiration of its useful life. As a result, the Company will, in the first quarter of 1994, write down the value of these assets. This write down is expected to result in a one-time, non-cash reduction of first quarter 1994 earnings of approximately $1,944,000.

CWA Contracts

The Company and Local 7470 of the Communications Workers of America, AFL-CIO (CWA) reached agreement on a new three-year contract concerning wages and working conditions, effective in October 1992 which contract expires October 14, 1995. The new contract provides for wage increases of 11.2% over the next three years, increased pension benefits, changes in health and dental care programs and changes in certain job classifications which allow for increased work force flexibility. See "Business - Employees," page 4 herein.

Item 8. Financial Statements and Supplementary Data

See pages FS-1 through FS-32 herein.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1994

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________
Commission File No. 2-39373

The Lincoln Telephone and Telegraph Company

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	47-0223220 (I.R.S. Employer Identification No.)
1440 M Street, Lincoln, Nebraska (Address of principal executive offices)	68508 (Zip Code)

Registrant's telephone number, including area code: 402-474-2211

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: 5% Preferred Stock ($100.00 par value)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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Number of shares of common stock outstanding
on
February 28, 1995 -- 1,000